

Factors Determining the Selection Criteria for Financing Avenues by Startup Entrepreneurs in India

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Abstract

There is an increasing importance to identify the factors that determine the selection criteria for financing avenues by startup entrepreneurs in India. The financing landscape in India has undergone significant changes in recent years, with the emergence of new financing avenues such as venture capital, angel investing, crowdfunding, and government-sponsored schemes. However, despite the availability of multiple financing options, many startup entrepreneurs continue to face significant challenges in securing funding for their ventures. Many entrepreneurs prefer lenders who were known for their credibility and had a good reputation in the market. The flexibility of repayment terms was also an important consideration, with many entrepreneurs preferring financing options that provided them with more time to repay the loan. The level of support provided by the lender, including mentorship, networking opportunities, and access to resources, was also an essential factor that influenced financing decisions. By understanding these factors, startup entrepreneurs can make more informed financing decisions and increase their chances of success. Policymakers and stakeholders in the startup ecosystem could work together to create a more conducive financing environment that addresses the challenges faced by startup entrepreneurs in accessing capital.

Keywords: *Startup Entrepreneurs, Selection Criteria, Cost of Financing, Access to Funding, Networking Opportunities, Government-Sponsored Schemes.*

Introduction

India is among the fastest-growing economies in the world, with a vibrant startup ecosystem that has garnered attention globally. The startup ecosystem in India has witnessed significant

growth over the past few years, with an increasing number of entrepreneurs launching innovative ventures in diverse sectors.

However, despite the growth of the startup ecosystem, many entrepreneurs continue to face significant challenges in accessing financing for their ventures. Access to capital is a critical factor that determines the success of a startup, and insufficient funding can often be the reason why many ventures fail. India's startup ecosystem has witnessed significant changes in the financing landscape over the past few years, with the emergence of new financing avenues such as venture capital, angel investing, crowdfunding, and government-sponsored schemes. However, despite the availability of multiple financing options, many entrepreneurs struggle to secure funding for their ventures. To address this issue, it is essential to understand the factors that determine the selection criteria for financing avenues by startup entrepreneurs in India. Financing decisions are often complex, and entrepreneurs need to consider various factors before selecting a financing option that best suits their needs. Figure 1 shows the various financing avenues available to the entrepreneurs:

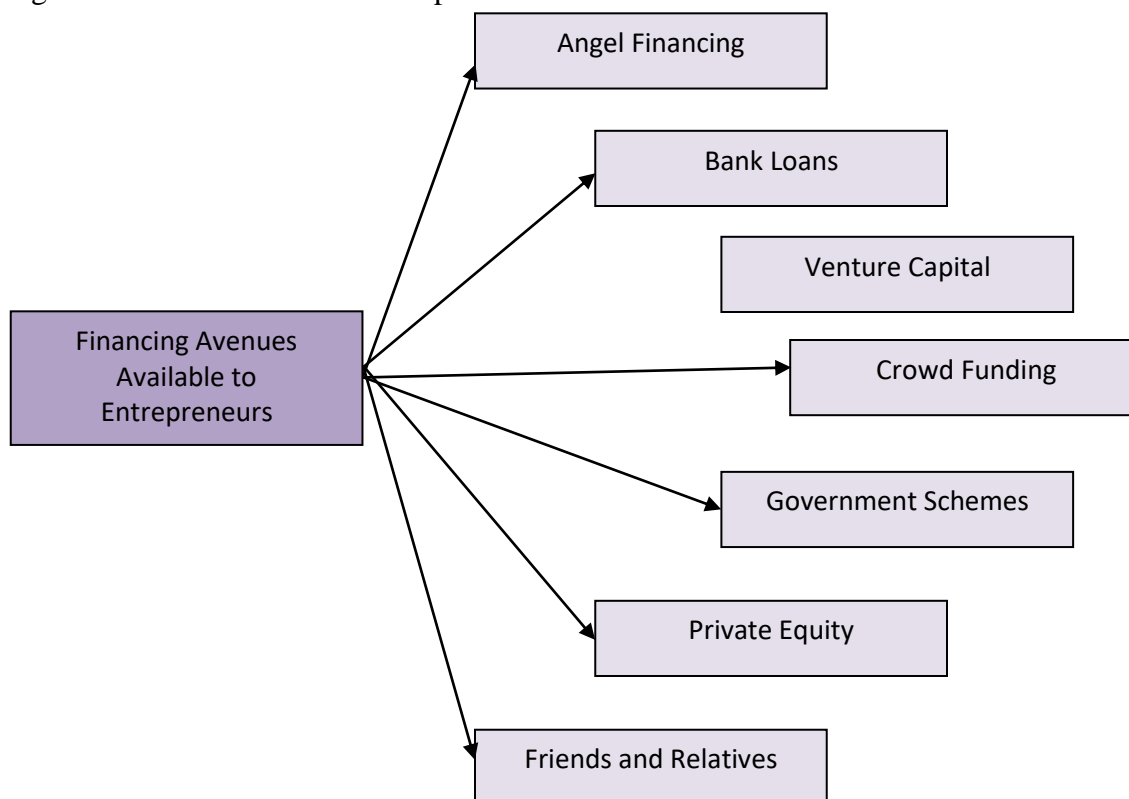


Figure 1 Financing Avenues Available to Entrepreneurs

This study aims to identify the critical factors that influence the financing decisions of startup entrepreneurs in India. The findings of this study have significant implications for policymakers, stakeholders in the startup ecosystem, and startup entrepreneurs. By understanding the critical factors that influence the financing decisions of startup entrepreneurs in India, policymakers and stakeholders can create a more conducive financing environment that addresses the challenges faced by entrepreneurs in accessing capital. Similarly, by understanding these factors, startup entrepreneurs can make more informed financing decisions and increase their chances of success. Hence, this study is essential in shedding light on the factors that influence the financing decisions of startup entrepreneurs in India. The study's findings have the potential to contribute significantly to the growth of the startup ecosystem in India and can serve as a valuable resource for policymakers, stakeholders, and entrepreneurs.

Literature Review

Financing is an essential aspect of startup entrepreneurship, and access to capital is critical for the success of a new venture. The literature on financing for startup entrepreneurs in India highlights several challenges that entrepreneurs face in accessing financing for their ventures. This literature review provides an overview of the existing literature on financing for startup entrepreneurs in India, highlighting the challenges faced by entrepreneurs and the various financing options available.

One of the significant challenges faced by startup entrepreneurs in India is the lack of access to financing. Krishnan and Gupta (2011) found that access to financing was the most significant constraint faced by startup entrepreneurs in India. World Bank (2014) highlighted that only a small percentage of entrepreneurs in India have access to formal sources of financing. CII (2015) found that access to financing was a significant constraint for startups, particularly for those in the early stages of development. Similarly, NITI Aayog (2016) highlighted that access to finance was a critical issue faced by startups in India, and recommended the need for policy interventions to address this issue.

Moreover, several studies have highlighted the difficulties that startup entrepreneurs in India face in accessing traditional forms of financing, such as bank loans. For instance, Saini and Sharma (2016) found that entrepreneurs face significant challenges in obtaining bank loans due

to stringent collateral requirements and lengthy application processes. To address these challenges, several alternative financing options have emerged in India, such as venture capital, angel investing, crowdfunding, and government-sponsored schemes. These financing options have gained popularity over the years, and several studies have explored their effectiveness in supporting startup entrepreneurship in India. For instance, Adhikary and Chakrabarti (2016) found that venture capital financing had a positive impact on the growth and development of startups in India. Tambe and Mohanty (2017) found that bank loans were often not a viable financing option for startups due to the high collateral requirements and the lengthy application process.

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Similarly, Agrawal and Atreya (2015) highlighted the potential of crowdfunding as an alternative financing option for startups in India. It was also found that crowdfunding platforms provided startups with access to a broad investor base and enabled them to raise funds quickly. Another important aspect of financing for startup entrepreneurs is the role of incubators and accelerators in providing support and access to financing.

Another important aspect of financing for startup entrepreneurs is the role of government policies in facilitating access to financing. Several studies have explored the effectiveness of government-sponsored schemes in supporting startup entrepreneurship in India. For instance, Das et al. (2015) found that the Indian government's Startup India initiative had the potential to provide significant support to startups in India by offering tax incentives, access to financing, and other benefits. Agarwal and Singh (2017) found that the lack of collateral and credit history are major barriers to accessing formal sources of financing for startups in India. They also noted that startups face challenges in meeting the stringent requirements of banks and financial

institutions. The type of business plays a significant role in determining the financing avenues for startups.

According to Jain and Jain (2015), technology-based startups prefer to raise funds through venture capitalists, whereas traditional businesses rely on bank loans. Similarly, Acharya and Tuteja (2017) found that startups in the e-commerce and software industry tend to opt for angel investors and venture capitalists due to the high-risk nature of their businesses. They also argue that startups that require a substantial amount of funding tend to opt for venture capitalists, whereas those with lower financial needs prefer angel investors.

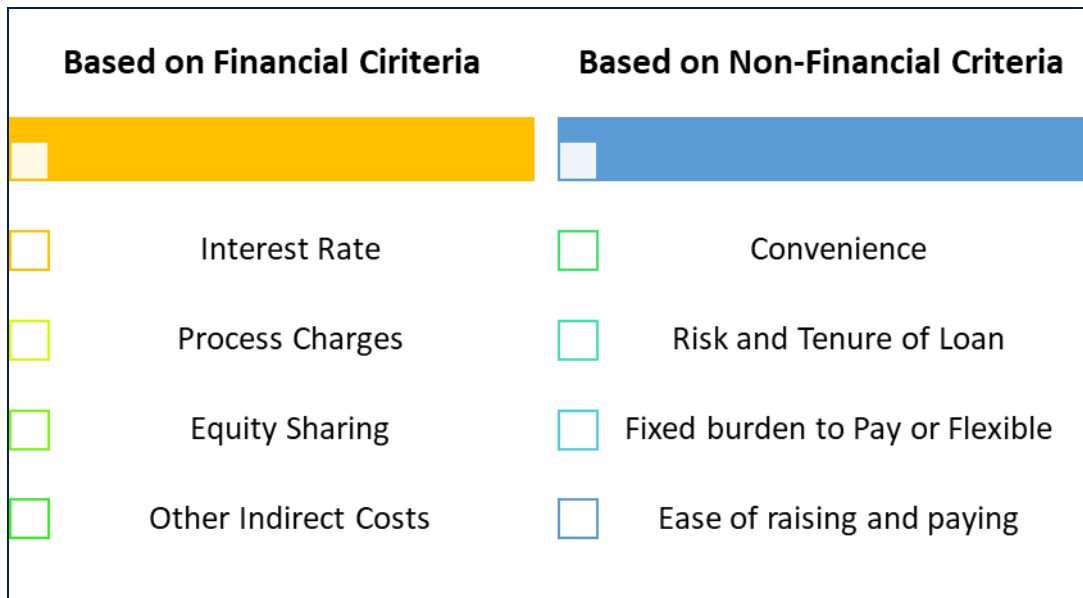
The stage of the startup is another important factor that determines the selection criteria for financing avenues. According to Goyal and Joshi (2015), seed-stage startups prefer angel investors due to the high risk associated with their ventures. In contrast, established startups tend to opt for debt financing as it provides stability to their business operations.

The entrepreneurial experience of startup founders is another crucial factor that determines the selection criteria for financing avenues. According to Bhattacharya et al. (2017), experienced entrepreneurs tend to opt for equity financing, such as venture capitalists and angel investors, as they can provide mentorship and guidance. In contrast, inexperienced entrepreneurs tend to opt for debt financing due to the lower risk associated with it.

The market conditions also play a significant role in determining the selection criteria for financing avenues. As per Acharya and Tuteja (2017), during an economic downturn, startups tend to opt for debt financing as it provides stability to their business operations. In contrast, during an economic boom, startups tend to opt for equity financing, such as venture capitalists and angel investors, as it provides the required funds for growth. In conclusion, the literature on financing for startup entrepreneurs in India highlights several challenges faced by entrepreneurs in accessing financing for their ventures. However, the emergence of alternative financing options and the role of government policies have provided new avenues for entrepreneurs to access capital and support for their ventures.

Based on the thorough analysis of the extant Literature, following factors were found which are affecting the financial avenues selection based on the various criteria. Table 1 shows the factors determining the selection criteria for financing avenues by startup entrepreneurs in India.

Table 1 Factors Determining the Selection Criteria for Financing Avenues by Startup Entrepreneurs in India



Conclusion

In conclusion, access to finance remains a critical challenge for startups in India. The literature review highlights that startup in India face difficulties in accessing formal sources of financing such as bank loans and venture capital, primarily due to factors such as a lack of collateral and credit history. Nevertheless, the emergence of alternative financing options such as crowdfunding, angel investment, and peer-to-peer lending, along with government policies to support startups, is providing new opportunities for entrepreneurs to raise funds in India. The preferences for financing options by startups in India depend on several factors, including the stage of development of the startup, the industry in which it operates, and the experience of the founders. The Indian government has taken several initiatives to support startups, such as the Startup India and Standup India policies. However, there is a need for further efforts to address the financing challenges faced by startups, and more research is necessary to understand the complexities and nuances of the startup financing landscape in India. The literature review highlights the need for further efforts to address the financing challenges faced by startups in India. While alternative financing options and government policies are providing new opportunities for entrepreneurs, there is still a lack of awareness and understanding of these

options among startups. Moreover, the regulatory frameworks for alternative financing options are still evolving in India, which creates uncertainty and makes it difficult for startups to access these financing options.

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